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High Fashion International Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 608)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

CHAIRMAN'S STATEMENT

2020 is a year of daunting challenges. Ever since January, the capricious COVID-19 situation, international relations and global economy have gripped the world in a very difficult chapter. Nevertheless, High Fashion International Limited (the “Company”) and its subsidiaries (together, the “Group”) are strongly determined to keep up with times and to seek for opportunities under the vigorously changing circumstances. Proudly united as we are, we were able to navigate through what others consider as blind alley. Remarkable development potentials that are never seen elsewhere also prove our successes in the technology, platformisation, resources integration and complementation initiatives.

Our key results for the year ended 31 December 2020 are as follow:

- Net profit attributable to shareholders at HK\$124.5 million
- Gearing ratio of non-current liabilities to shareholders’ fund at 48%. Current ratio at 1.6
- Basic earnings per share landed at HK\$0.41
- Net asset value per share amounted to HK\$9.39

Under the pandemic, High Fashion swiftly shifted its market development focus to the Asia-Pacific and the domestic market in the People’s Republic of China (the “PRC”). Product range and categories were greatly expanded in response to the changing market needs. During this difficult time, we were able to create innovative products that are unique to High Fashion, thanks to the ample resources injected to product development with the support of our solid business foundation and cashflow from various business streams. Further to that, High Fashion is also committed to sustainability enhancement and advancement. Our achievements in building a green supply chain have placed us at the forefront in the fashion industry in Asia. Moreover, High Fashion is also pushing for the application of information technology in our business. The implementation of Industrial 4.0 has enabled us to improve our supply chain efficiency and management through digitalization, resulting in more streamlined and flexible business processes. This has empowered us to offer the best service solutions to our customers and improved our competitiveness in target markets tremendously.

The Group's real estate business has also achieved groundbreaking achievement. The Hangzhou site of WL District, our in-house workspace brand, is highly recognised by the PRC Government, and was selected as the transition site of a cross-province tertiary research institute. Phase II of WL District Hangzhou is now under phase construction, and has received great attention and support from the PRC Government and banks in the PRC and Hong Kong in various aspects. Having become one of the most prestigious industrial parks and a first-class technology hub in Zhejiang, WL District is now well-known for its software and hardware facilities and is bringing stable and substantial rental income to the Group. WL District's new breakthrough has built a solid support on technology base, corporate image and goodwill for High Fashion's future development.

The overall real estate projects are increasing in value. The revitalisation project in Hong Kong and the industrial park in Zhejiang province have provided adequate capital support for the development of our core fashion business in the coming year. We are also anticipating a strong talent pool in technology field and potential high value-added project collaborations that come alongside with the research institute, which is going to enlighten High Fashion's capacity in product development, South-East Asia supply chain construction and intelligent manufacturing, which would be crucial for our strategic direction of building High Fashion into an international leading fashion stage. The achievements we made in various projects are going to be converted into the greatest advantages of High Fashion's core and all-round fashion supply platform.

In 2021, we would further expand our talent base and together we would strive to crown High Fashion "the King-maker of the fashion industry". A detailed and purposeful development blueprint is now in action, with full commitment from our staff body. We believe the different initiatives in our property projects, market expansion strategy, production planning, platform economy and digital transformation are going to be the pillars of High Fashion's revolutionary success!

I appreciate very much the enormous support and advice constantly received from our shareholders, customers, suppliers, banks and my fellow Directors. I would also like to thank the management team and all staff members of our Group for their dedication and contribution.

RESULTS

The board of directors (the “Board”) of High Fashion International Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for 2020 together with the comparative figures for 2019 are set out as follows:-

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
REVENUE			
Goods and services		2,133,734	2,880,015
Rental		23,367	33,695
TOTAL REVENUE	3	<u>2,157,101</u>	<u>2,913,710</u>
Cost of sales		(1,770,408)	(2,334,594)
Gross profit		386,693	579,116
Other income		51,923	35,638
Other gains and losses	4	148,539	40,576
Net impairment loss recognised on trade receivables		(3,628)	(3,691)
Net impairment loss recognised on amount due from a joint venture		-	(17,086)
Administrative expenses		(245,895)	(350,256)
Selling and distribution expenses		(142,218)	(187,578)
Other expenses		(4,236)	(11,899)
Finance costs	5	(29,146)	(36,187)
Share of losses of joint ventures		(365)	(2,605)
PROFIT BEFORE TAXATION		<u>161,667</u>	<u>46,028</u>
Income tax (expense) credit	6	(36,503)	19,242
PROFIT FOR THE YEAR	7	<u>125,164</u>	<u>65,270</u>
OTHER COMPREHENSIVE INCOME (EXPENSE)	8		
Items that will not be reclassified to profit or loss:			
Exchange differences on translation from functional currency to presentation currency		171,254	(65,489)
Fair value gain (loss) on equity instruments at fair value through other comprehensive income (“FVTOCI”)		27,895	(484)
Gain on revaluation of owner-occupied properties		105,504	5,740
Income tax relating to items that will not be reclassified to profit or loss		(19,755)	(1,435)
		<u>284,898</u>	<u>(61,668)</u>
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		(10,117)	1,629
Other comprehensive income (expense) for the year, net of tax		<u>274,781</u>	<u>(60,039)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>399,945</u></u>	<u><u>5,231</u></u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Cont'd)
For the year ended 31 December 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
PROFIT FOR THE YEAR			
ATTRIBUTABLE TO:			
Owners of the Company		124,518	71,964
Non-controlling interests		646	(6,694)
		<u>125,164</u>	<u>65,270</u>
TOTAL COMPREHENSIVE INCOME			
(EXPENSE) FOR THE YEAR			
ATTRIBUTABLE TO:			
Owners of the Company		399,303	6,239
Non-controlling interests		642	(1,008)
		<u>399,945</u>	<u>5,231</u>
EARNINGS PER SHARE			
Basic	<i>10</i>	<u>HK\$0.41</u>	<u>HK\$0.24</u>
Diluted		<u>HK\$0.41</u>	<u>HK\$0.24</u>

Consolidated Statement of Financial Position

At 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		554,627	528,462
Right-of-use assets		84,035	80,246
Investment properties		2,630,916	2,120,188
Interest in joint ventures		7,299	7,556
Equity instruments at FVTOCI		16,416	19,009
Deferred tax assets		30,821	29,111
Other non-current assets		32,674	32,199
		<u>3,356,788</u>	<u>2,816,771</u>
CURRENT ASSETS			
Inventories		347,823	404,452
Properties held for sale		40,449	167,258
Trade receivables	11	453,348	535,813
Deposits, prepayments and other receivables		128,751	171,166
Amounts due from joint ventures		5,395	5,860
Tax recoverable		-	2,100
Equity instruments at FVTOCI		9,381	-
Derivative financial instruments		3,091	-
Structured deposits		610,389	549,849
Short-term bank deposits		13,988	3,358
Bank balances and cash		710,079	359,583
		<u>2,322,694</u>	<u>2,199,439</u>
CURRENT LIABILITIES			
Trade payables	12	414,795	417,160
Other payables and accruals		238,076	203,107
Provision		2,371	2,239
Lease liabilities		7,254	8,978
Amount due to an associate		583	583
Contract liabilities		58,619	189,553
Tax payable		54,982	51,863
Derivative financial instruments		577	-
Bank borrowings		639,362	812,223
		<u>1,416,619</u>	<u>1,685,706</u>
NET CURRENT ASSETS		<u>906,075</u>	<u>513,733</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,262,863</u>	<u>3,330,504</u>

Consolidated Statement of Financial Position (Cont'd)*At 31 December 2020*

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Deferred tax liabilities	299,691	254,202
Derivative financial instruments	1,081	-
Bank borrowings	1,070,000	582,500
Lease liabilities	18,162	11,443
Provision for long service payments	2,645	2,729
	<u>1,391,579</u>	<u>850,874</u>
NET ASSETS	<u>2,871,284</u>	<u>2,479,630</u>
CAPITAL AND RESERVES		
Share capital	30,562	30,562
Share premium and reserves	<u>2,871,215</u>	<u>2,480,203</u>
Equity attributable to owners of the Company	<u>2,901,777</u>	<u>2,510,765</u>
Non-controlling interests	<u>(30,493)</u>	<u>(31,135)</u>
TOTAL EQUITY	<u>2,871,284</u>	<u>2,479,630</u>

Notes to the Consolidated Financial Statements

1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and by the Hong Kong Companies Ordinance.

2. Principal Accounting Policies

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2 ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 June 2020.

⁵ Effective for annual periods beginning on or after 1 January 2021.

3. Revenue and Segment Information

Revenue

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Recognised at a point in time under HKFRS 15:		
Manufacturing and trading of garments	1,913,949	2,613,136
Sales of brand garments	32,747	86,858
Sales of properties	187,038	180,021
Revenue from contracts with customers	2,133,734	2,880,015
Rental income recognised under HKFRS 16	23,367	33,695
	2,157,101	2,913,710
Geographical markets		
Canada	68,686	78,538
Hong Kong	99,927	91,479
The People's Republic of China (the "PRC")	975,211	1,156,760
United States of America ("USA")	504,199	993,364
Europe	291,019	360,906
Others	218,059	232,663
	2,157,101	2,913,710

Set out below is the reconciliation of revenue from contracts with customers with the amounts disclosed in segment information:

For the year ended 31 December 2020

	Manufacturing and trading of garments	Brand business	Property investment and development
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	1,938,937	32,747	210,405
Less: rental income recognised under HKFRS 16	-	-	(23,367)
Less: inter-segment sales	(24,988)	-	-
Revenue from contracts with customers	1,913,949	32,747	187,038

3. Revenue and Segment Information (Cont'd)

Revenue (Cont'd)

For the year ended 31 December 2019

	Manufacturing and trading of garments <i>HK\$'000</i>	Brand business <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>
Segment revenue	2,652,924	86,858	213,716
Less: rental income recognised under HKFRS 16	-	-	(33,695)
Less: inter-segment sales	(39,788)	-	-
Revenue from contracts with customers	<u>2,613,136</u>	<u>86,858</u>	<u>180,021</u>

Segment information

For the year ended 31 December 2020

	Manufacturing and trading of garments <i>HK\$'000</i>	Brand business <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Elimina- tions <i>HK\$'000</i>	Consoli- dated <i>HK\$'000</i>
REVENUE						
External sales	1,913,949	32,747	210,405	2,157,101	-	2,157,101
Inter-segment sales (note i)	24,988	-	-	24,988	(24,988)	-
Segment revenue	<u>1,938,937</u>	<u>32,747</u>	<u>210,405</u>	<u>2,182,089</u>	<u>(24,988)</u>	<u>2,157,101</u>
RESULTS						
Segment profit (loss)	<u>3,755</u>	<u>(14,447)</u>	<u>44,244</u>	<u>33,552</u>	<u>-</u>	<u>33,552</u>
Change in fair value of derivative financial instruments						3,858
Change in fair value of investment properties						150,479
Corporate overhead and other expenses (note ii)						(31,027)
Unallocated items						4,805
Profit before taxation						<u>161,667</u>

3. Revenue and Segment Information (Cont'd)

Segment information (Cont'd)

For the year ended 31 December 2019

	Manufacturing and trading of garments <i>HK\$'000</i>	Brand business <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Elimina- tions <i>HK\$'000</i>	Consoli- dated <i>HK\$'000</i>
REVENUE						
External sales	2,613,136	86,858	213,716	2,913,710	-	2,913,710
Inter-segment sales (note i)	39,788	-	-	39,788	(39,788)	-
Segment revenue	<u>2,652,924</u>	<u>86,858</u>	<u>213,716</u>	<u>2,953,498</u>	<u>(39,788)</u>	<u>2,913,710</u>
RESULTS						
Segment profit (loss)	<u>58,983</u>	<u>(32,808)</u>	<u>60,764</u>	<u>86,939</u>	<u>-</u>	<u>86,939</u>
Change in fair value of derivative financial instruments						1,698
Change in fair value of investment properties						40,034
Corporate overhead and other expenses (note ii)						(56,760)
Unallocated items						<u>(25,883)</u>
Profit before taxation						<u>46,028</u>

Notes:

- (i) Inter-segment sales are charged at agreed terms set out in the subcontracting agreement entered into between group companies.
- (ii) Central administration costs are apportioned between segments and corporate and allocated to the respective segments according to segment revenue in the respective reporting periods.

3. Revenue and Segment Information (Cont'd)

Other segment information

For the year ended 31 December 2020

	Manufacturing and trading of garments HK\$'000	Brand business HK\$'000	Property investment and development HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	42,806	525	3,342	46,673
Depreciation of right-of-use assets	7,862	3,407	387	11,656
Loss on disposal of property, plant and equipment	5,387	-	-	5,387
Net impairment loss recognised on trade receivables	3,573	55	-	3,628
Allowance for inventory obsolescence	7,962	704	-	8,666
Interest income	(16,221)	(23)	(736)	(16,980)
Finance costs	<u>26,965</u>	<u>-</u>	<u>2,181</u>	<u>29,146</u>
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Fair value gain on derivative financial instruments	(3,858)	-	-	(3,858)
Increase in fair value of financial assets at fair value through profit or loss ("FVTPL")	(6,047)	-	-	(6,047)
Increase in fair value of investment properties	-	-	(150,479)	(150,479)
Share of losses of joint ventures	<u>365</u>	<u>-</u>	<u>-</u>	<u>365</u>

3. Revenue and Segment Information (Cont'd)

Other segment information (Cont'd)

For the year ended 31 December 2019

	Manufacturing and trading of garments <i>HK\$'000</i>	Brand business <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	41,360	859	1,233	43,452
Depreciation of right-of-use assets	7,677	3,741	788	12,206
Gain on disposal of property, plant and equipment	(1,210)	-	-	(1,210)
Net impairment loss recognised on trade receivables	3,647	44	-	3,691
Allowance for inventory obsolescence	44,810	3,842	-	48,652
Interest income	(18,851)	(28)	(929)	(19,808)
Finance costs	<u>35,860</u>	<u>288</u>	<u>39</u>	<u>36,187</u>
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Fair value gain on derivative financial instruments	(1,698)	-	-	(1,698)
Increase in fair value of financial assets at FVTPL	(3,038)	-	-	(3,038)
Increase in fair value of investment properties	-	-	(40,034)	(40,034)
Impairment loss recognized on amount due from a joint venture	17,086	-	-	17,086
Share of losses of joint ventures	<u>2,605</u>	<u>-</u>	<u>-</u>	<u>2,605</u>

3. Revenue and Segment Information (Cont'd)

Geographical information

The Group's operations are mainly located in the Greater China.

Information about the Group's revenue from continuing operations from external customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue		Non-current assets	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
USA	504,199	993,364	234	365
Europe	291,019	360,906	51	76
Greater China	1,075,138	1,248,239	3,264,040	2,722,507
Others	286,745	311,201	5,253	5,948
	<u>2,157,101</u>	<u>2,913,710</u>	<u>3,269,578</u>	<u>2,728,896</u>

Note : Non-current assets excluded interests in joint ventures, equity instruments at FVTOCI, deferred tax assets and other non-current assets.

Information about major customer

During the years ended 31 December 2020 and 2019, there is no customer from manufacture and trading of garments segment, brand business nor property investment and development segment which contributed over 10% of the total revenue of the Group.

4. Other Gains and Losses

	2020	2019
	HK\$'000	HK\$'000
Change in fair value of derivative financial instruments	3,858	1,698
Change in fair value of financial assets at FVTPL	6,047	3,038
(Loss) gain on disposal/written-off of property, plant and equipment	(5,387)	1,210
Net foreign exchange (loss) gain	(6,458)	3,933
Increase in fair value of investment properties	150,479	40,034
Write off of intangible assets	-	(8,223)
Loss on deregistration of subsidiaries	-	(1,114)
	<u>148,539</u>	<u>40,576</u>

5. Finance Costs

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interests on:		
Bank borrowings and overdrafts	35,382	43,575
Lease liabilities	830	1,326
Bank charges on discounted bills	2,135	4,918
Total borrowing costs	<u>38,347</u>	<u>49,819</u>
Less: Amount capitalised investment properties that is arisen from specific borrowings	<u>(9,201)</u>	<u>(13,632)</u>
	<u><u>29,146</u></u>	<u><u>36,187</u></u>

6. Income Tax Expense (Credit)

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax charge:		
Hong Kong	4,749	992
The PRC	17,174	17,682
Other jurisdictions	-	337
	<u>21,923</u>	<u>19,011</u>
(Over)underprovision in prior years:		
Hong Kong	98	(37,158)
The PRC	(1,810)	(3,136)
	<u>(1,712)</u>	<u>(40,294)</u>
Deferred taxation :		
Current year	16,292	2,041
	<u><u>36,503</u></u>	<u><u>(19,242)</u></u>

7. Profit for the Year

Profit for the year has been arrived at after charging (crediting):

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Costs of inventories recognised as expenses (including allowance for inventory obsolescence) (note)	1,588,401	2,165,019
Cost of properties sold (included in cost of sales)	135,966	124,415
Depreciation of property, plant and equipment	47,673	43,452
Depreciation of right-of-use assets	11,656	12,206
Government grants (included in other income)	(21,819)	(15,823)
Bank Interest income (included in other income)	<u>(16,980)</u>	<u>(19,808)</u>

Note: The amount includes allowance for inventory obsolescence of HK\$8,666,000 (2019: HK\$48,652,000).

8. Other Comprehensive Income (Expense)

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Fair value gain (loss) on equity instruments at FVTOCI	27,895	(484)
Gain on revaluation of owner-occupied properties	105,504	5,740
Exchange differences on translation to presentation currency	171,254	(65,489)
Exchange differences on translation of foreign operations	<u>(10,117)</u>	<u>1,629</u>
Other comprehensive income (expense)	<u>294,536</u>	<u>(58,604)</u>
Income tax relating to components of other comprehensive income		
Revaluation of owner-occupied properties	<u>(19,755)</u>	<u>(1,435)</u>
Other comprehensive income (expense) for the year, net of tax	<u><u>274,781</u></u>	<u><u>(60,039)</u></u>

9. Dividends

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Dividends recognised as distribution and paid during the year:		
Interim dividend – No interim dividend declared and paid for 2020 (2019: 3 HK cents per ordinary share for 2019)	-	9,168
Final dividend - 3 HK cents per ordinary share for 2019 (2019: 3 HK cents for 2018)	<u>9,168</u>	<u>9,168</u>
	<u><u>9,168</u></u>	<u><u>18,336</u></u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of 3 HK cents (2019: final dividend in respect of the year ended 31 December 2019 of 3 HK cents) per ordinary share, in an aggregate amount of HK\$9,168,000 (2019: HK\$9,168,000) has been proposed by the Directors and is subject to the approval by the Company's shareholders at the forthcoming annual general meeting.

10. Earnings Per Share

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

<u>Earnings</u>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Earnings for the purpose of basic and diluted earnings per share attributable to owners of the Company	<u>124,518</u>	<u>71,964</u>
<u>Number of shares</u>	2020 <i>'000</i>	2019 <i>'000</i>
Number of ordinary shares for the purpose of basic and diluted earnings per share	<u>305,616</u>	<u>305,616</u>

The computation of diluted earnings per share for the years ended 31 December 2020 and 31 December 2019 does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares.

11. Trade Receivables

The aged analysis of the Group's trade receivables net of allowance for credit loss is presented based on the invoice date at the end of the reporting period, which approximates the respective revenue recognition dates.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 90 days	352,223	500,008
91 to 180 days	27,436	21,993
181 to 360 days	66,843	9,471
Over 360 days	<u>6,846</u>	<u>4,341</u>
	<u>453,348</u>	<u>535,813</u>

12. Trade Payables

The following is an aged analysis of the trade payables presented based on the invoice date at the end of the reporting period:

	2020 <i>HK\$'000</i>	2019 HK\$'000
Within 90 days	235,287	130,138
91 to 180 days	19,252	8,975
181 to 360 days	4,975	2,969
Over 360 days	10,737	10,447
	<u>270,251</u>	<u>152,529</u>
Accrued purchases	144,544	264,631
	<u>414,795</u>	<u>417,160</u>

13. Contingent Liabilities

- (i) There were disputes amongst the Group, Transpac World Trade Services Holding Limited (“Transpac”, previously called Tai Ding Century Limited), Ms. Leong Ma Li, the beneficial owner of Transpac, and certain directors of the Company. Several legal proceedings are taking place in relation to court orders over bank accounts of Longford Information & Technology Co., Limited and the claim for damages for breaching the cooperation agreement. In the opinion of the directors of the Company, the legal proceeding is still at an early stage and the amount of claim is not yet provided by the counterparty, it is not probable that a material outflow of resource will be required and no provision has been made accordingly.
- (ii) In June 2016, a judgment was made by the Intermediate People’s Court Shaoxing, Zhejiang Province which stated that the Group had convicted an offence of illicit transportation of common goods or articles without paying customs duty and was required to pay a penalty of approximately RMB28,000,000 and unpaid customs of approximately RMB27,000,000, out of which the RMB30,000,000 deposit previously paid would be confiscated by the Customs Authority and used to offset the amount payable. In July 2016, the Group appealed against the Judgment to the High People’s Court of Zhejiang Province.

After the legal proceedings in 2017 and 2018, management of the Group had sought advice from PRC legal professionals, who advised that the evidence relied upon by the court is not factually supported, against which the Group had strong grounds to refute. Nevertheless, the Group may still be subject to a penalty for not complying the processing trade requirement, which is estimated to be approximately RMB2,000,000 (equivalent to HK\$2,371,000). The Group has made a provision for penalty for the same amount in 2019.

In May 2019, a court hearing was held by the Higher People’s Court of Zhejiang Province to hear the defense opinion from the Group. In July 2019, the Zhejiang People’s Procuratorate (浙江省人民檢察院) visited the Group’s office in Hangzhou and performed various verification of defense evidence. According to the external lawyer, the verification process is a common judicial practice in China and it implies a favourable outlook to the Group. As at 31 December 2020, the Group has not yet received the judgment from the Court, the deposit has been remained as a current asset in the condensed consolidated statement of financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2020 has certainly struck the world hard, but it is also a revolutionary year for High Fashion. The worldwide pandemic has torn down the whole brick and mortar retail business, and the supply chain was therefore under great pressure. Yet, with the longstanding strategic partnership with our clients and a prudent risk management system, High Fashion was able to maintain the cashflow and business position. In response to the tumultuous and rapidly changing market, we were agile enough to re-design our market focus to the Mainland and Southeast Asia, to re-map our supply chain, and to expand our product categories and product development span, so as to seek breakthrough point amid all changes. The Group firmly believes with the emergence of effective vaccines worldwide, the immunisation of the majority of citizens will be the key to revitalising our afflicted economy and enabling the prospect of returning to normality and regular businesses. The Group is optimistic about the future development of the business and the market.

Given the mass international lockdown and social distancing restrictions, the Group's manufacturing businesses have been combating numerous difficulties, such as supply chain disruption and reduced consumption due to the temporary closing of physical stores. There was downward pressure on revenue in the first half of 2020 even though we see encouraging result from the new mask business. With the PRC and the ASEAN regions gradually regaining control of the pandemic, alongside High Fashion's culture to diversify businesses and management for tomorrow, we have managed to reframe and fuel a remarkable recovery in the second half of 2020, paving a promising path to further expand our businesses in China and explore a wider horizon in new business areas.

The Group has not only digitalised our internal operations, but also upgraded our big data collection and product research and development with new technology. We have invested heavily in digital marketing thus enabled our marketing team to maintain close and frequent contact with our clients remotely, thereby ensured connectivity beyond the limitation of geographical borders. We are committed to digitalise our production lines, so as to reduce the manpower required. For instance, we strived to upgrade the weaving line at Xinchang, Zhejiang Province to an unmanned one in order to effectively improve the efficiency and output per capita.

In addition to advancing digital transformation in the manufacturing sector, High Fashion has also achieved astounding breakthroughs in our real estate projects in 2020. High Fashion Centre in Hong Kong has completed revitalisation in mid-2020, and part of it was converted into a fashion business ecosystem and shared centre. WL District in Hangzhou has been selected to be the temporary site of a provincial-level research institute with acknowledgement and blessings from local provincial government. The two projects would continue to provide a significant and stable rental income for the Group. We anticipate WL District would become a high-tech fashion hub that attracts related talents and potential projects.

With rich experiences and deep understanding towards the market accumulated throughout the years, alongside various forward-looking strategic initiatives, High Fashion is able to explore uncharted possibilities despite all adversities under this global pandemic. We shall continue to broaden the reach of our business coverage and to sustain our business development with brand new opportunities.

IMPACT OF COVID-19 PANDEMIC

The COVID-19 pandemic (“COVID-19”) has caused disruptions to the supply chains of manufacturing and trading business. In Mainland China, the Chinese New Year holiday in January 2020 was extended due to the COVID-19 and factories were required to resume work in phases. Some suppliers there extended their shutdowns, causing interruptions to materials supply in February and March 2020. Production at the Group’s facilities, with active precaution measures against the spread of the virus, resumed in March 2020 to catch up the delay shipments for overseas customers. On the demand side, most of the Group’s major markets have been in different levels of lockdown since April 2020, thereby adversely affecting shipments across the Group’s trading businesses.

In response to COVID-19, the Group has stepped up its efforts to ensure a safe working environment at all its locations around the world, in line with the recommendations of the local government and the World Health Organization. The Group has been producing face masks in its facilities in the PRC and provided all employees with masks and disinfectant supplies, and also made donations of face masks to charitable organisations and tertiary institutions.

To manage the adverse impact from the pandemic, we have liaised closely with our key customers to oversee their order requests and payment schedules. Tightened cost control with contingency plans were implemented to tackle the worsen situation. Further, the Group took initiative to apply for local government grant and subsidies to unease the impact of COVID-19.

FINANCIAL REVIEW

Overall performance of the Group was satisfactory. We have achieved an improvement in the second half of the year when comparing to the first half of the year in terms of revenue and profit. Revenue for the year was HK\$2.16 billion, of which HK\$1.04 billion was derived in the first half of the year and HK\$1.12 billion was derived in the second half year, resulting in an increase of 7.7% half yearly. Profit for the year was HK\$125.2 million which comprised loss in the first half of the year of HK\$11.7 million and profit in the second half of the year of HK\$136.9 million.

The Group’s revenue for the year decreased by 26.0% from HK\$2.91 billion in 2019 to HK\$2.16 billion. The Group’s revenue was largely driven from the segment of Manufacturing and Trading of Garments, represented 88.7% of the Group’s total revenue. By geographical segment, increased revenue portion was mainly attributable to those derived from the Greater China region, which represented 49.8% of total revenue (2019: 42.8%) and the decreased revenue portion was mainly derived from the United States, which accounted for at 23.4% of the Group’s total revenue (2019: 34.1%). The changes reflected decreased customers orders from United States and the shifting of our market development focus to the Asia Pacific and the PRC.

The gross profit and gross profit margin of the Group for the year decreased from HK\$579.1 million and 19.9% in 2019 to HK\$386.7 million and 17.9% for the year, respectively. The decrease was resulted from the price reduction offered to customers amid the pandemic.

Other gains and losses for the year were HK\$148.5 million (2019: HK\$40.6 million), which mainly included the fair value gain of HK\$150.5 million (2019: HK\$40.0 million) on investment properties.

In terms of expenses, administrative expenses of the Group decreased from HK\$350.2 million in 2019, by 29.8%, to HK\$245.9 million for the year. Selling and distribution expenses decreased by 24.2% from HK\$187.6 million in 2019 to HK\$142.2 million for the year. The decreases were mainly attributable to the decrease of employee related costs arising from straight control of staff incentive, arrangements of staff shift rotation to match with customers' order schedule, relief for business enterprises offered by the governments of Mainland China, Hong Kong and the United States under their subsidy policies and the decrease overseas travel expenses due to the lockdown worldwide. The reductions in administrative expenses and selling and distribution expenses aligned with the decrease of Group's revenue.

The Group recorded income tax expenses of HK\$36.5 million, which included deferred tax of HK\$16.3 million. The income tax credit for 2019 was HK\$19.2 million, which comprised reversal of prior years' overprovision of HK\$37.2 million. Net profit attributable to shareholders for the year was HK\$124.5 million, representing an increase of 73.0% compared to HK\$72.0 million in 2019.

Basic earnings per share for the year were HK\$0.41 (2019: HK\$0.24). Net asset value per share for the year was HK\$9.39 (2019: HK\$8.11).

SEGMENT INFORMATION

	Revenue		Contribution	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
By principal activities:				
Manufacturing and trading of garments	1,913,949	2,613,136	3,755	58,983
Brand business	32,747	86,858	(14,447)	(32,808)
Property investment and development	210,405	213,716	44,244	60,764
	2,157,101	2,913,710	33,552	86,939
By geographical segments:				
United States	504,199	993,364	(19,350)	17,780
Europe	291,019	360,906	(2,876)	14,302
Greater China	1,075,138	1,248,239	56,305	46,771
Others	286,745	311,201	(527)	8,086
	2,157,101	2,913,710	33,552	86,939

Manufacturing and trading of garments

The Group's revenue declined by HK\$699.2 million, or 26.8% as compared with the revenue of 2019 as a result of the pandemic. In 2020 the Group reported segmental gain of HK\$3.8 million, an encouraging result of profit HK\$16.8 million the year to cover the loss in first half of the year.

During 2020, the Group has processed the re-engineering to enhance competitiveness, we have also explored and assigned specific resources to further strengthen the production supply chain capabilities in the Southeast Asian regions. While there are no playbooks to guide the apparel industry through the pandemic and beyond, the management of the Group believes the entire supply chain must work as an ecosystem to survive intact, and it should use the crisis as an opportunity to reset for the future.

On the one hand, the Group focused more on monitoring the production costs and optimising the work flows in order to improve the operating profitability. On the other hand, the Group has allocated further resources to focus on the expansion of domestic sales market in Mainland China. These measures enable the stable growth of the Group and contend the stresses from uncertainties in overseas markets.

Brand business

In order to focus on the apparel manufacturing business and to provide our customers with better services, the Group accelerated the scale-down of retail brand business and closed down the loss-making business during the year. The Group's revenue from the brand business decreased significantly by HK\$54.1 million or 62.3%, to HK\$32.7 million in 2020 from that in 2019, resulting in a narrowed net loss of 56.0%.

Property investment and development

The Group's revenue from property investment and development business in 2020 slightly decreased by HK\$3.3 million, or 1.5% as compared to that of 2019. The Group's revenue mainly comprised sales of residential units in Hangzhou and rental income in Zhejiang Province and in Shenzhen. Decreased revenue in 2020 was mainly due to the rent free period offered by Hangzhou's WL District to the tenants, which was to compensate for offices relocation within the Hangzhou Industrial park in order to facilitate the Group's internal reformation.

The revitalisation of High Fashion Centre in Hong Kong was completed in July 2020 and the leasing is in progress. The rental income from High Fashion Centre will be reflected in the financial year of 2021.

The construction and façade works have started on a new land of Phase 2 of WL District in XiaoShan. The land will be developed as residential and commercial units for leasing, with the Group's existing contiguous properties in order to generate synergies and thereby increasing the size and profitability of the Group's property projects.

Other property development projects of the Group in Hangzhou are in good progress as planned. The Group's quality portfolio of property projects in Mainland China and Hong Kong will continue to create high value to the Group and will serve as additional growth drivers in the coming future.

EVENTS AFTER REPORTING PERIOD

Pursuant to the Company's announcement on 8 March 2021, 達利(中國)有限公司 (High Fashion (China) Co., Ltd.) ("High Fashion China"), an indirect wholly-owned subsidiary of the Company, and 桐廬利越建設有限公司 (Tonglu Liyue Construction Co., Ltd.) ("Tonglu Liyue") have entered into the Façade Works Construction Contract, pursuant to which Tonglu Liyue undertakes to provide the facade construction works on the a parcel of land located in Xiaoshan to High Fashion China at the consideration of approximately RMB39,973,000 (tax inclusive) (equivalent to approximately HK\$47,775,700), subject to adjustment based on actual work undertaken.

Save for the disclosed above, the Group has no substantial discloseable events after the reporting period and as of the date of this announcement.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

High Fashion had three major goals for sustainability in 2020: better products, lower impacts and better workplace.

Ecologic sustainability and traceability have always been one of our prime initiatives. We believe that everyone has the obligation to sustain our planet for future generations, and we are committed to promoting and investing in sustainable practices into action, We have received a number of internationally recognised green certifications and we are aiming to become a role model of sustainable enterprise.

Furthermore, the Zhejiang Provincial Department of Science and Technology has published a notice regarding “Newly Recognized Provincial Enterprise Research Institutes in 2020”, of which High Fashion’s Silk Research Institute was enlisted within the “New Provincial Enterprise Research Enterprise” category, further attesting the Group’s creative ability, and the potential to bear more responsibilities in sustainability. The Group has also been honoured in the announcement of “2020 Water-Saving Enterprises in Zhejiang” for our effort in reducing adverse effect on neighborhood from production activities. Other than the above, the water treatment system, waste gas treatment system and solar power system of the Group continue to operate, contributing collectively to the Group’s sustainability strategy.

In order to better understand how High Fashion’s operation has affected the environment, we have monitored closely the carbon dioxide emission of our production base. Through translating words into actions, the Group is able to lower the intensity of the carbon dioxide emission by 44.64% in 2019, as compare to 2017 levels.

High Fashion adheres to its people-oriented philosophy to create a respectful, inclusive and engaging workplace to the staff. Through a diverse set of internal and external training programs, we aim to maximise the potential and contributions of our staff to our success. The Group also incorporated this philosophy in the offices and facilities designs, to create a more relaxing and comfortable workplace for our staff.

LIQUIDITY AND FINANCIAL RESOURCES

The Group’s total cash and cash equivalent and current bank deposits was HK\$1.33 billion at 31 December 2020, compared to HK\$0.91 billion at 31 December 2019. Bank borrowing, mainly dominated in Hong Kong dollar has increased slightly from HK\$1.39 billion as at 31 December 2019 to HK\$1.71 billion as 31 December 2020. The bank borrowings were mainly for certain properties construction, development projects and fixed assets investments to develop and upgrade the manufacturing plants in the PRC. The gearing ratio of non-current liabilities to shareholders’ funds and current ratio as at 31 December 2020 was 48.0% (as at 31 December 2019: 33.9%) and 1.6 (as at 31 December 2019: 1.3), respectively. The lower current ratio as at 31 December 2020 was attributable to the decrease in accounts receivables as well as the allocation of the syndicated loan from current liabilities to non-current liabilities upon the refinancing in 2020, which improved the liquidity ratio.

Net cash inflow from operating activities for the year was HK\$232 million, along with the available banking facilities, and the Group has imposed better control of accounts receivables, thus to accelerate the receivables turnover. During the year, the Group has disposed of part of its equity instrument, which brought a net cash inflow of HK\$22 million in December 2020. The Group is able to maintain a healthy working capital and liquidity to meet the operating needs and future growth.

FOREIGN CURRENCY RISK EXPOSURE

Foreign currency risk exposure is primarily related to Renminbi (“RMB”) and United States dollar (“USD”) since a considerable portion of our operating expenses are denominated in RMB while sales are mainly denominated in USD. Short-term foreign currency exchange contracts are used, whereas appropriate, to manage the speculating of rising prices of RMB. However, as Hong Kong dollar is pegged to the USD, the Group considers that its foreign currency risk in respect of USD is minimal.

CHARGES ON ASSETS

Barring the pledge of a property in Hong Kong of HK\$1,289 million (2019: HK\$977 million), there were no charges on other Group’s assets.

CAPITAL EXPENDITURE

The Group has purchased the plant and equipment, leasehold improvement and construction in progress of around HK\$93.6 million in order to upgrade the manufacturing capabilities and improve the environmental protection facilities during the year. The Group also injected HK\$178.8 million into certain properties construction and development projects during the year.

CAPITAL COMMITMENTS

As at 31 December 2020, the Group is committed to capital expenditure in respect of acquisition of property, plant and equipment and construction work contracted but not provided for amounted to HK\$164.5 million.

TAX AUDIT

There was no significant tax audit carried out during the year.

HUMAN RESOURCES AND REMUNERATION POLICY

The total number of employees of the Group including its joint ventures as at the 31 December 2020 was about 5,400. Management of the Group made much account of staff training in order to equip the staff with the right knowledge, staff training by face-to-face as well as on-line were held. The Group evaluates its staff according to their performance, qualifications and industry practices. Other than the competitive remuneration packages offered to employees, share options may also be granted to selected employees based on the Group’s performance. No share option was granted to employees during the year.

ANNUAL GENERAL MEETING

The annual general meeting (“AGM”) of the Company will be held at 11/F, High Fashion Centre, 1-11 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong on Friday, 4 June 2021 at 10:30 a.m. Notice of AGM will be published on the websites of the Company (www.highfashion.com.hk) and the Stock Exchange (www.hkexnews.hk) and despatched to shareholders of the Company in due course.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of 3 HK cents (2019: 3 HK cents) per share for the year ended 31 December 2020 to shareholders whose names appear on the Register of Members of the Company on Friday, 11 June 2021. The proposed final dividend is subject to the approval of shareholders of the Company at the forthcoming AGM. If being approved, dividend warrants for the final dividend is expected to be despatched on or around Wednesday, 30 June 2021.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 2 June 2021 to Friday, 4 June 2021, both days inclusive, during which period no transfer of shares will be registered. In order to determine shareholders who are entitled to attend and vote at the AGM, all transfer of shares documents accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration by not later than 4:30 p.m. on Tuesday, 1 June 2021.

In addition, the Register of Members will also be closed from Thursday, 10 June 2021 to Friday, 11 June 2021, both days inclusive, during which period no transfer of shares will be registered. In order to determine shareholders who are entitled to qualify for the proposed final dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration by not later than 4:30 p.m. on Wednesday, 9 June 2021.

CORPORATE GOVERNANCE

The Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 14 to the Listing Rules throughout the year, except for the following deviations as described below:

Code provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Lam Foo Wah was the Chairman and Managing Director of the Company.

He has tendered his resignation as the Managing Director of the Company with effect from 1 February 2020 and remains as the Chairman of the Company. Following the appointment of Mr. Lam Gee Yu, Will as the Managing Director of the Company and Mr. Lam Din Yu, Well as the Managing Director (China) of the Company at the same date, both being the Executive Directors of the Company, the Company has complied with this code provision.

Code provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election.

The current Non-executive Directors and Independent Non-executive Directors were not appointed for a specific term. However, as all directors of the Company are eligible for re-election and subject to retirement by rotation at the annual general meetings of the Company in accordance with Bye-law 87 of the Company's Bye-laws and code provision A.4.2 of the CG Code, the Board considers that sufficient resources have been taken to ensure that the Company's corporate governance practices are no less than exacting than those in the CG Code.

Code provision D.1.4

Under the code provision D.1.4 of the CG Code, directors should clearly understand delegation arrangements in place and listed companies should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

The Board considers that although there are no formal letters of appointment entered into between the Company and the directors of the Company, the current arrangement has been adopted for years and proved to be effective, more appropriate and flexible for the business operation of the Company. The directors of the Company also have a clear understanding of the terms and conditions of their appointment with close communication with the Company and awareness on their relevant rights and duties pursuant to the applicable laws and regulations.

AUDIT COMMITTEE REVIEW

The Audit Committee of the Company was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting, risk management and internal control systems as set out in the terms of reference of the Audit Committee.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.highfashion.com.hk) and the Stock Exchange (www.hkexnews.hk).

The 2020 Annual Report of the Company is expected to be published and despatched to the shareholders of the Company and available on the above websites by no later than 30 April 2021.

By Order of the Board
High Fashion International Limited
Lam Gee Yu, Will
Executive Director and Managing Director

Hong Kong, 30 March 2021

As at the date of this announcement, the Board comprises of (1) Executive Directors: Mr. Lam Foo Wah, Mr. Lam Gee Yu, Will, Mr. Lam Din Yu, Well and Ms. So Siu Hang, Patricia; (2) Non-executive Directors: Professor Yeung Kwok Wing and Mr. Hung Ka Hai, Clement; and (3) Independent Non-executive Directors: Mr. Wong Shiu Hoi, Peter, Mr. Leung Hok Lim and Mr. Chung Kwok Pan.